

Message Text

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TAGS: EFIN, OECD, EINV, ENRG

SUBJECT: PAPERS FOR IEA AD HOC GROUP ON FINANCIAL AND
INVESTMENT ISSUES (FII): PART II(C) (PAPER ON
INWARD INVESTMENT IN INDUSTRIALISED COUNTRIES)

REFS: (A) OECD PARIS 5996

(B) OECD PARIS 5872

(C) STATE 55605

1. THIS CABLE TRANSMITS THE FOLLOWING PAPER ENTITLED,
"INWARD INVESTMENT IN INDUSTRIALISED COUNTRIES", WHICH
CORRESPONDS TO ITEM II(C) OF THE TABLE CONTAINED IN
DOCUMENT IEA/SPC(75)7 SECOND REVISION, IN ACCORDANCE WITH
ASSIGNMENT OF RESPONSIBILITIES MADE AT LAST IEA GOVERNING
BOARD AND OF AD HOC GROUP ON FINANCIAL AND INVESTMENT
ISSUES ON MARCH 6 (REFTEL A).

BEGIN TEXT

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II(C) INWARD INVESTMENT IN INDUSTRIALISED COUNTRIES

BACKGROUND

1. THE SUDDEN MASSIVE OIL PRICE INCREASES AND THE RELATIVELY LOW ABSORPTION CAPACITY OF OIL-PRODUCING COUNTRIES AS A WHOLE ARE RESULTING IN AN OVERALL BALANCE-OF-PAYMENTS DISEQUILIBRIUM, ACCUMULATION OF CONSIDERABLE SAVINGS WITHIN PRODUCER COUNTRIES AND DIFFICULTIES FOR CONSUMER COUNTRIES IN MEETING THE CAPITAL REQUIREMENTS OF THEIR ECONOMIES.

2. CAPITAL FLOWS FROM PRODUCERS TO INDUSTRIALISED CONSUMERS HAVE SO FAR BEEN CHARACTERISED BY:

- LARGE PLACEMENTS IN SHORT-TERM OR OTHER HIGHLY LIQUID FINANCIAL ASSETS (BANK DEPOSITS, GOVERNMENT MARKETABLE SECURITIES) LARGELY BECAUSE OF THE RAPID RISE IN THE RATE OF CAPITAL ACCUMULATION, LIMITED AVAILABILITY OF FINANCIAL EXPERTISE AND RELATIVELY HIGH INTEREST RATES ON THE SHORT-TERM MARKET
- FLOW OF FUNDS MAINLY TO THE EURO-MARKET AND TO THE NATIONAL CAPITAL MARKETS OF A LIMITED NUMBER OF INDUSTRIALISED CONSUMER COUNTRIES;
- INVESTMENTS IN REAL ASSETS (SUCH AS DIRECT INVESTMENT, TAKEOVERS, PURCHASE OF SHARES, EQUITY-TYPE LOANS, ACQUISITION OF REAL ESTATE) HAVE SO FAR BEEN RATHER MARGINAL, THOUGH HEAVILY CONCENTRATED IN A FEW COUNTRIES.

(OECD SECRETARIAT'S NOTE CFM(75)2
"FINANCIAL MARKET TRENDS"; PRELIMINARY
POSITION PAPER II(A))

ARGUMENT

1. IF THIS TREND IS PERPETUATED, IT MAY CREATE RISKS OF LIMITED OFFICIAL USE

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- MASSIVE MOVEMENTS OF SHORT-TERM FUNDS FROM ONE INDUSTRIALISED CONSUMER COUNTRY TO ANOTHER
- INCREASED DIFFICULTIES IN FINANCING NECESSARY INVESTMENTS IN INDUSTRIALISED CONSUMER COUNTRIES WHICH DO NOT ENJOY SUFFICIENT DIRECT INFLOWS OF FUNDS FROM PRODUCER COUNTRIES.

2. IT IS IN THE COMMON INTEREST OF PRODUCER AND
CONSUMER COUNTRIES TO IMPROVE THE CHANCES OF A STABLE
AND PROGRESSING WORLD ECONOMY. PRODUCER AND CONSUMER
COUNTRIES, THEREFORE, HAVE A COMMON INTEREST IN EXPLOR-
ING POSSIBLE COOPERATIVE MEASURES DESIGNED TO PROMOTE
SAFE PLACEMENT OF THE NEW PRODUCER SAVINGS AND TO
SATISFY THE CAPITAL REQUIREMENTS OF THE CONSUMER COUN-

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TRIES.

3. IT WILL BE IN THE PARTICULAR INTEREST OF THE
CONSUMER COUNTRIES TO:

- LENGTHEN THE AVERAGE MATURITY OF PRODUCER
COUNTRIES' CAPITAL PLACEMENTS IN CONSUMER
COUNTRIES;

- DIVERSIFY DIRECT FLOWS OF PRODUCER COUNTRIES' FUNDS AMONG A GREATER NUMBER OF CONSUMER COUNTRIES AS WELL AS AMONG INDUSTRIAL SECTORS;
- PROVIDE CAPITAL ON REASONABLE TERMS;
- MAINTAIN THE LIBERALISATION OF CAPITAL MOVEMENTS AMONG CONSUMER COUNTRIES, AS IT HAS DEVELOPED DURING THE PAST DECADES;

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- MAINTAIN ORDERLY CONDITIONS IN THEIR FINANCIAL MARKETS AND INDUSTRIES.

4. IT WILL BE IN THE PARTICULAR INTEREST OF PRODUCER COUNTRIES TO:

- OBTAIN SAFE AND PROFITABLE OUTLETS FOR THEIR INVESTMENTS;
- SEEK CAPITAL PLACEMENTS THAT OFFER A HEDGE AGAINST LOSS OF REAL WEALTH DUE TO INFLATION AND EXCHANGE RATE CHANGES. "ADEQUATELY PROTECTED AGAINST THE DEPRECIATION OF THE VALUE" (OPEC SUMMIT CONFERENCE OF ALGIERS).

5. IT IS DIFFICULT TO ASSESS AT THIS TIME TO WHAT EXTENT COMMERCIAL OR OTHER CONSIDERATIONS MIGHT MOTIVATE PRODUCER COUNTRIES TO CONCENTRATE INVESTMENTS IN REAL ASSETS IN PARTICULAR INDUSTRIAL SECTORS OR TO CONTINUE THE PRESENT CONCENTRATION IN CERTAIN CONSUMER COUNTRIES.

6. PROBLEMS RELATING TO FINANCIAL INVESTMENTS AND INVESTMENTS IN REAL ASSETS MAY DIFFER. PLACEMENTS IN FINANCIAL ASSETS COULD BE EXPECTED TO BE DIRECTED MAINLY BY MARKET FORCES WHICH ARE NOW FAVOURING SUCH PLACEMENTS. (THE QUESTION OF INDEXATION OF CAPITAL ASSETS IS DISCUSSED IN PRELIMINARY POSITION PAPER II(E).) ON THE OTHER HAND, THERE MIGHT BE SCOPE FOR SPECIAL COORDINATED EFFORTS TO ATTRACT INVESTMENTS IN REAL ASSETS ALTHOUGH MARKET FORCES ARE NOW INCREASING THE PROPORTION OF FUNDS PLACED IN THIS WAY. SUCH INVESTMENTS MAY, HOWEVER, POSE PROBLEMS OF OWNERSHIP AND CONTROL AS OPEC INVESTMENTS ARE MADE BY GOVERNMENTS AND TEND TO CONCENTRATE ON TAKEOVER OPERATIONS WHICH SET THEM APART FROM THE INVESTMENTS USUALLY TAKING PLACE IN THE AREA.

7. OECD COUNTRIES ARE AGREED TO TREAT OPEC INVESTMENTS
IN ACCORDANCE WITH THEIR GENERAL POLICIES TOWARD FOREIGN
INWARD INVESTMENT IN A GENERALLY NON-DISCRIMINATORY
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MANNER. MOST OECD COUNTRIES CONSIDER THEIR EXISTING
LEGISLATIVE OR ADMINISTRATIVE SAFEGUARDS
AGAINST SENSITIVE FOREIGN INVESTMENT REQUESTS
SUFFICIENT TO DEAL WITH PARTICULAR CASES OF INWARD
INVESTMENT FROM THE OIL-PRODUCING COUNTRIES. SOME
OECD COUNTRIES, I.E. THOSE WHO ALREADY EXPERIENCED
SENSITIVE OPEC INVESTMENT REQUESTS WITHOUT HAVING
SUFFICIENT LEGISLATIVE OR ADMINISTRATIVE SAFEGUARDS,
ARE CONSIDERING THE SETTING-UP OF SOME MACHINERY (WHICH
WOULD NOT CARRY WITH IT NEGATIVE IMPLICATIONS FOR
LIBERALISATION AS BETWEEN OECD COUNTRIES) IN ORDER TO
PROTECT THEMSELVES, WHERE NECESSARY, ON NATIONAL
SECURITY GROUNDS OR TO SECURE AN ESSENTIAL
NATIONAL INTEREST.

8. TO MEET THE COMMON NEEDS OF CONSUMER COUNTRIES,
OECD COUNTRIES ARE AGREED TO STRENGTHEN COOPERATION
IN THIS FIELD SO AS TO ENSURE THE DESIRABLE DEGREE OF
APPROXIMATION OF NATIONAL POLICIES TOWARDS OPEC
INVESTMENT. TO THIS END, A REGULAR EXCHANGE OF INFOR-
MATION ON DEVELOPMENTS, POLICIES AND MEASURES TAKEN
OR ENVISAGED WILL TAKE PLACE.

(RESULTS OF RECENT REVIEWS IN THE COMMITTEE ON
INTERNATIONAL INVESTMENT AND MULTINATIONAL

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ENTERPRISES AND IN THE EXECUTIVE COMMITTEE IN
SPECIAL SESSION, OECD SECRETARIAT'S NOTE IME(75)2
"ATTITUDES OF THE GOVERNMENTS OF OECD MEMBER
COUNTRIES TOWARDS INCREASED INVESTMENT INFLOWS BY
NON-RESIDENTS")

9. FURTHER THOUGHT MIGHT BE GIVEN TO:

- THE ESTABLISHMENT OF A COOPERATIVE REGISTRATION SYSTEM ON PRODUCERS' DIRECT INVESTMENTS IN CONSUMER COUNTRIES, IN ORDER TO PROMOTE TRANSPARENCY.
- A GENERAL AGREEMENT OF PRINCIPLE WITH PRODUCER COUNTRIES CONCERNING VOLUNTARY PRIOR CONSULTATION ON THE PART OF THE OIL-PRODUCING COUNTRIES BEFORE DECIDING UPON INVESTMENTS IN CERTAIN FIELDS OR ABOVE CERTAIN LEVELS OF CONTROLLING INFLUENCE.

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- THE PROBLEMS RAISED BY UNCOORDINATED ATTEMPTS BY INDIVIDUAL CONSUMER COUNTRIES TO ATTRACT PRODUCER COUNTRIES' FUNDS AS DIRECT INVESTMENT OR PORTFOLIO PLACEMENTS THROUGH COMPETITIVE OFFERS OF ADVANTAGEOUS TERMS.
- ESTABLISHMENT OF A FACILITY TO CHANNEL LONG-TERM INVESTMENTS ALONG THE LINES OF THE INTERNATIONAL DIRECT INVESTMENT TRUST PROPOSED BY GERMANY; SOME PRELIMINARY COMMENTS ON THIS PROPOSAL ARE GIVEN IN THE ANNEX;

- A RECIPROCAL UNDERTAKING BY CONSUMER AND PRODUCER COUNTRIES TO PROVIDE FAIR TREATMENT WITH REGARD TO EXPROPRIATION, TRANSFER, TAXATION, LEGAL PROTECTION, THE CARRYING OUT OF ORDINARY BUSINESS ACTIVITIES, ETC.).

OBJECTIVE

TO ENCOURAGE THE FLOW OF OIL FUNDS INTO LONGER-TERM FINANCIAL INVESTMENTS AND INTO INVESTMENT IN REAL ASSETS.

LINES TO TAKE

- (A) THE SUBJECT SHOULD BE INCLUDED IN THE AGENDA.
- (B) -- WE SHOULD MAKE KNOWN THAT WE WELCOME OPEC INVESTMENT IN LONGER-TERM FINANCIAL AND REAL ASSETS.
- WE SHOULD SEEK TO COOPERATE WITH PRODUCERS IN DEVELOPING NEW MECHANISMS AND FORMS FOR INVESTMENT.
- PRODUCERS SHOULD BE AWARE OF THE DIFFICULTIES POSED BY EXCESSIVE INVESTMENT IN CERTAIN SECTORS, AND SHOULD BE READY TO COOPERATE WITH INDUSTRIALISED COUNTRIES IN AVOIDING THOSE DIFFICULTIES.

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